COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3933-01
Bill No.: SB 728
Subject: Appropriations; Economic Development; Taxation and Revenue; Tax Credits
Type: Original
Date: February 3, 2010

Bill Summary: This proposal requires appropriations for allocations of state tax credits.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on General Revenue Fund	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☐ Estimated Total Net Effect on All funds expected to exceed $100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed $100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Economic Development**, **Department of Social Services**, **Department of Natural Resources** and the **Department of Health and Senior Services** each assume the proposal would not fiscally impact their respective agencies.

Officials from the **Department of Economic Development - Housing Development Commission (MHDC)** state the proposed legislation would make all state tax credits subject to appropriation through the annual state budget process, including the Missouri Low Income Housing Tax Credit (LIHTC) and Affordable Housing Assistance Program (AHAP) administered by MHDC. There is no fiscal impact to the state associated with simply making tax credits subject to appropriation. There could be a fiscal impact based on whether the appropriated tax credit allocations were higher or lower than the current tax credit authorizations and then resulted in increased or decreased tax credit redemptions. However, this would require speculation dependent on future actions of the General Assembly.

For the LIHTC, it is expected that this provision could negatively affect the efficiency of the credit due to a resulting decrease in credit pricing. This would occur because investors would shy away from investing in a program they view as unpredictable. Having fewer investors lowers competition, resulting in lower investment equity created by the tax credit. The end result is less effectiveness in providing quality affordable housing for low-income Missouri residents.

The bill would also have applications for the AHAP credit authorized in 32.111 RSMo approved on a first-to-file, first-to-receive basis if application requests would exceed the amount available. There would be no fiscal impact associated with this change.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** state the bill will have an unknown impact on premium tax revenue, as DIFP cannot estimate whether the legislature will appropriate tax credits to the same, greater, or lesser extent than is currently authorized. It is unknown how many insurance companies will choose to participate in this program and take advantage of the tax credits. Premium tax revenue is split 50/50 between General Revenue and County Foreign Insurance Fund except for domestic Stock Property and Casualty Companies who pay premium tax to the County Stock Fund. The County Foreign Insurance Fund is later distributed to school districts through out the state. County Stock Funds are later distributed to the school district and county treasurer of the county in which the principal office of the insurer is located. It is unknown how each of these funds may be impacted tax credits each year.

ASSUMPTION (continued)

Officials from the **Department of Agriculture (AGR)** assume the fiscal impact is unknown for their agency. If AGR is allocated less in New Generation Cooperative, Family Farm Breeding Livestock, and Qualified Beef tax credits than are currently available, there would be a reduction in the number of tax credit applications received and a proportional decline in application fee revenues.

The average number of tax credit applications (and average annual fee revenues) for these three programs over the last three fiscal years is:

New Generation Cooperative:	1,450 applications ($36,250)
Family Farm Breeding Livestock:	54 applications ($1,350)
Qualified Beef:	16 applications ($400)
Totals FY07 - FY09:	1,520 applications ($38,000)

If one assumes a 50 percent reduction in tax credits for these three AGR programs, the cost to the department would be $19,000. There would also be a reduction in economic activity related to these tax credits but that reduction would be reflected in the statewide economic impact and not be a direct cost to AGR.

Officials from the **Department of Revenue (DOR)** state their response to a proposal similar to or identical to this one in a previous session indicated the department planned to absorb the administrative costs to implement the proposal. Due to budget constraints, reduction of staff and the limitations within the department's tax systems, changes cannot be made without significant impact to the department's resources and budget. Therefore, the IT portion of the fiscal impact is estimated with a level of effort valued at $42,188 (1,592 FTE hours).

Oversight assumes OA-ITSD (DOR) is provided with core funding to handle a certain amount of activity each year. Oversight assumes OA-ITSD (DOR) could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, OA-ITSD (DOR) could request funding through the appropriation process.

The **Department of Revenue** also states with the addition of the provision of "first-to-file, first-to-receive basis" to some credits covered in this legislation, we anticipate additional contacts from taxpayers who did not qualify for the credit due to when their return was filed.

- One (1) Tax Collection Technician I (Range 10, Step L) for every additional 15,000 contacts annually on the delinquent tax line.

ASSUMPTION (continued)

- One (1) Tax Collection Technician I (Range 10, Step L) for every additional 24,000 contacts annually on the non- delinquent tax line
- One (1) Revenue Processing Technician I (Range 10, Step L) for every additional 4,800 contacts annually to the tax assist offices

In summary, DOR assumes the need for three additional FTE at a total cost of $161,142 in FY 2011, $126,244 in FY 2012 and $130,032 in FY 2013.

Oversight assumes the level of contacts to the Department of Revenue from taxpayers will not rise to the level requiring additional FTEs.

Officials from the **Office of Secretary of State (SOS)** assume there would be costs due to additional publishing duties related to the various department's authority to promulgate rules, regulations, and forms. SOS estimates the departments could require approximately 98 new pages of regulations in the Code of State Regulations at a cost of $27.00 per page, and 147 new pages in the Missouri Register at a cost of $23.00 per page. Costs due to this proposal are estimated to be $6,027, however, the actual fiscal impact would be dependent upon the actual rule-making authority and may be more or less. Financial impact in subsequent fiscal years would depend entirely on the number, length, and frequency of the rules filed, amended, rescinded, or withdrawn.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

Officials from the **Office of Administration - Budget and Planning** did not respond to our request for fiscal impact.

This proposal deletes statutes for four tax credit programs. Three of the programs (Transportation Development, Loan Guarantee Fee, and Qualified Research Expense) are already sunset and currently no additional tax credits can be issued. The Dry Fire Hydrant credit expires with no additional credits able to be issued after August 28, 2010. Therefore, **Oversight** will assume the deletion of these programs will not have a fiscal impact on the state.

Oversight will assume the additional step of submitting the tax credit programs to the appropriations process will not in itself create a fiscal impact. For purposes of the fiscal note,

ASSUMPTION (continued)

Oversight will assume appropriation levels will be at levels consistent with current usage or current annual caps.

FISCAL IMPACT - State Government	FY 2011 (10 Mo.)	FY 2012	FY 2013
	$0	**$0**	**$0**

FISCAL IMPACT - Local Government	FY 2011 (10 Mo.)	FY 2012	FY 2013
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This act modifies every state tax credit program in existence, except for the senior citizen property tax credit, the homestead preservation tax credit, financial and insurance tax credits, the residential treatment agency tax credit, and the community college new job training and retention credits, by limiting the amount of tax credits available for authorization in each fiscal year beginning FY 2011 based upon an allocation made by enactment of the appropriation bill for public debt.

The act creates a procedure for the allocation of tax credit authorizations after June 30, 2011. Unless specifically allocated, no tax credits may be authorized after June 30, 2011. No later than October 1, 2010, the administering agency of each tax credit program, now or hereafter authorized by state law, must provide the House Budget Committee and the Senate Appropriations Committee with a request for tax credit allocation. Where Missouri law allows

FISCAL DESCRIPTION (continued)

the issuance of tax credits to a recipient over the course of several years, such tax credit authorization must be allocated in the aggregate, and subsequent issuance of such tax credits will not be used in calculating any statutory limitation on the fiscal year authorization allocation of tax credits. Fiscal year allocations of tax credits must be made in the annual appropriations bill for public debt and specifically provide: the name of the tax credit program; the actual amount allocated for authorization; the administering agency for the program; and whether the amount is authorized for streaming tax credit issuance and the amount of streamed credits. Allocations for tax credits which remain unauthorized at the end of the fiscal year will expire on the last day of such fiscal year.

The act repeals the transportation development tax credit, loan guarantee fee tax credit, dry fire hydrant tax credit, and the qualified research expense tax credit.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Economic Development
Department of Revenue
Department of Agriculture
Department of Social Services
Department of Health and Senior Services
Department of Natural Resources
Department of Insurance, Financial Institutions and Professional Registration
Office of the Secretary of State

NOT RESPONDING:

Office of Administration - Budget and Planning

Mickey Wilson

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Director
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